

STAFF PAPER

16 July – 20 July 2012

REG IASB Meeting

Project	Financial Instruments: Impairment		
Paper topic	Reclassifications from fair value through profit or loss		
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Introduction

1. This paper addresses how the IASB's proposed impairment model would apply to financial assets that are reclassified from fair value through profit or loss to:
 - (a) amortised cost under IFRS 9 *Financial Instruments*; and
 - (b) fair value through other comprehensive income as per the staff recommendations in Agenda Paper 6A in the Classification and Measurement project.
2. The staff recommends that the application of the IASB's proposed impairment model to a financial asset on the date of reclassification from fair value through profit or loss should be the same as a financial asset at initial recognition.

Applying the proposed impairment model to reclassifications

3. Under IFRS 9, if an entity reclassifies a financial asset from fair value through profit or loss to amortised cost, paragraph 5.6.3 requires that the fair value at the reclassification date becomes its new carrying amount and paragraph 5.6.1 requires that the amortised cost measurement applies prospectively from that date.
4. Subsequently an entity is required to measure the asset at amortised cost using an effective interest rate calculated at the date of reclassification.

5. In Agenda Paper 6A, the staff recommend that for reclassifications from fair value through profit or loss to fair value through other comprehensive income, an effective interest rate will be calculated based on the carrying amount (ie the fair value) at the reclassification date. That is consistent with the requirements in IFRS 9 for reclassifying a financial asset from fair value through profit or loss to amortised cost.
6. The IASB has tentatively decided that the proposed impairment model will apply to financial assets at amortised cost and financial assets at fair value through other comprehensive income.
7. In the staff's view, the application of the proposed impairment model to financial assets as at the date of reclassification should follow the application of the proposed impairment model to financial assets on initial recognition. Such an approach would be consistent with IFRS 9 paragraph 5.6.1 that an entity apply the reclassification prospectively from the reclassification date and not restate any previously recognised gains, losses or interest. The financial asset is recognised at fair value and an effective interest rate determined as at the reclassification date as for a newly recognised asset.
8. Thus, at the date of reclassification from fair value through profit or loss, an entity would be required to determine an impairment allowance of 12 month expected losses unless the financial asset meets the definition of credit-impaired on initial recognition as per Agenda Paper 5D. If the financial asset meets the definition of credit-impaired on initial recognition, then the entity would be required to subsequently measure the financial asset using a credit-adjusted effective interest rate.

Question

Does the Board agree with the staff recommendation that the application of the IASB's proposed impairment model to a financial asset on the date of reclassification from fair value through profit or loss should be the same as a financial asset at initial recognition?